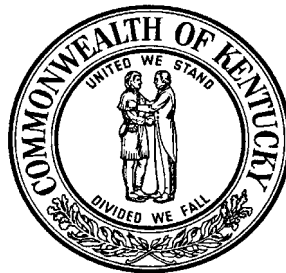


**REPORT OF THE AUDIT OF THE  
CARLISLE COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 1, 2005**



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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable John Roberts, Carlisle County Judge/Executive  
Honorable Steve McChristian, Carlisle County Sheriff  
Members of the Carlisle County Fiscal Court

The enclosed report prepared by Kem, Duguid & Associates, PSC, Certified Public Accountants, presents the Carlisle County Sheriff's Settlement - 2004 Taxes as of May 1, 2005.

We engaged Kem, Duguid & Associates, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kem, Duguid & Associates, PSC evaluated the Carlisle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
CARLISLE COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 1, 2005**

Kem, Duguid & Associates, PSC has completed the audit of the Sheriff's Settlement - 2004 Taxes for Carlisle County Sheriff as of May 1, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,118,186 for the districts for 2004 taxes, retaining commissions of \$46,867 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,067,082 to the districts for 2004 Taxes. Taxes of \$2,348 are due to the districts from the Sheriff and refunds of \$348 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Records For Franchise Taxes Were Not Complete In Accordance With KRS 134.160
- The Sheriff Should Distribute Interest Earned On The Tax Account To The School And The Fee Account On A Monthly Basis In Accordance With KRS 134.140(3)(b)
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were not fully insured and collateralized by bank securities or bonds.



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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John Roberts, Carlisle County Judge/Executive

Honorable Steve McChristian, Carlisle County Sheriff

Members of the Carlisle County Fiscal Court

Independent Auditor's Report

We have audited the Carlisle County Sheriff's Settlement - 2004 Taxes as of May 1, 2005. This tax settlement is the responsibility of the Carlisle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Carlisle County Sheriff's taxes charged, credited, and paid as of May 1, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

---

MEMBERS:

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable John Roberts, Carlisle County Judge/Executive  
Honorable Steve McChristian, Carlisle County Sheriff  
Members of the Carlisle County Fiscal Court

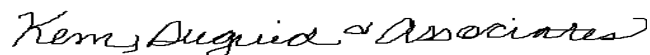
Page 2

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Records For Franchise Taxes Were Not Complete In Accordance With KRS 134.160
- The Sheriff Should Distribute Interest Earned On Tax Account To The School And Fee Account On A Monthly Basis In Accordance With KRS 134.140(3)(b)
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,



Kem, Duguid & Associates, PSC

Audit fieldwork completed -  
October 25, 2005

CARLISLE COUNTY  
STEVE MCCHRISTIAN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

May 1, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 153,340	\$ 198,558	\$ 390,733	\$ 148,796
Tangible Personal Property	9,856	12,416	25,391	20,668
Intangible Personal Property				16,951
Fire Protection	896			
Increases Through Exonerations	357	484	909	1,128
Franchise Corporation	39,008	51,685	99,483	
Clay Taxes	88	109	225	86
Penalties	1,279	1,615	3,254	1,448
Adjusted to Sheriff's Receipt	44	136	(158)	(613)
Gross Chargeable to Sheriff	<u>\$ 204,868</u>	<u>\$ 265,003</u>	<u>\$ 519,837</u>	<u>\$ 188,464</u>
<u>Credits</u>				
Exonerations	\$ 1,086	\$ 1,369	\$ 2,768	\$ 1,461
Discounts	2,104	2,722	5,325	2,336
Delinquents:				
Real Estate	3,718	4,656	9,473	3,607
Tangible Personal Property	10	12	25	33
Uncollected Franchise	3,999	5,136	10,146	
Total Credits	<u>\$ 10,917</u>	<u>\$ 13,895</u>	<u>\$ 27,737</u>	<u>\$ 7,437</u>
Taxes Collected	\$ 193,951	\$ 251,108	\$ 492,100	\$ 181,027
Less: Commissions *	<u>8,530</u>	<u>10,672</u>	<u>19,684</u>	<u>7,981</u>
Taxes Due	\$ 185,421	\$ 240,436	\$ 472,416	\$ 173,046
Taxes Paid	185,087	239,239	471,578	171,178
Refunds (Current and Prior Year)	<u>336</u>	<u>361</u>	<u>857</u>	<u>683</u>
Due Districts or Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (2)</u>	<u>\$ 836</u>	<u>\$ (19)</u>	<u>\$ 1,185</u>

The accompanying notes are an integral part of this financial statement.

CARLISLE COUNTY  
 STEVE MCCHRISTIAN, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2004 TAXES  
 May 1, 2005  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	616,086
4% on	\$	492,100

\*\* Special Taxing Districts:

Health District	\$	(1)
Extension District		1,163
Soil Conervation		(52)
Ambulance		(239)
Watershed District		<u>(35)</u>
Due Districts	\$	<u><u>836</u></u>

CARLISLE COUNTY  
NOTES TO FINANCIAL STATEMENT

May 1, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 29, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$22,362 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of October 29, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	380,516
Uncollateralized and uninsured	<u>22,362</u>
Total	<u><u>\$ 502,878</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2004 through May 1, 2005.

B. Clay Reserve Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2004 through February 2005.

Note 4. Interest Income

The Carlisle County Sheriff earned \$457 as interest income on 2004 taxes. The Sheriff did not distribute the appropriate amount to the school district as required by statute. As of October 25, 2005, the Sheriff owes \$192 in interest to the school district and \$265 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Carlisle County Sheriff collected \$5,715 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 25, 2005, the Sheriff owes \$5,715 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Carlisle County Sheriff collected \$950 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. As of October 25, 2005, the Sheriff owes \$950 in advertising fees to his fee account.

Note 7. Deficit Balance

Based on available records, there is a \$3,962 deficit in the Sheriff's official tax account. This deficit results in an undeterminable cause. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

CARLISLE COUNTY  
STEVE MCCHRISTIAN, COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

MAY 1, 2005

Assets

Cash in Bank (All Tax Accounts)	\$ 127,402
Deposits in Transit	6,907
Receivables:	2,355
Unpaid Receivables	
Current Year:	
County	2
School	20
Health	1
Soil	52
Ambulance	239
Watershed	35
Tax Commissions Due Tax Account	604
Prior Year:	
Tax Commission Due Tax Account (2003)	1,132
Total Assets	<u>\$ 138,749</u>

Liabilities

Paid Obligations-	
Outstanding Checks	\$ 89,397
Outstanding Liabilities	<u>7,747</u>
Total Paid Obligations	\$ 97,144
Unpaid Obligations-	
Current Year:	
Other Taxing Districts-	
State	\$ 1,185
Extension	1,164
Add-On Fee	5,716
Advertising Fee	950
Interest Due School	193
Interest Due Sheriff's Fee Account	<u>265</u>
	9,473

The accompanying notes are an integral part of this financial statement.



CARLISLE COUNTY  
STEVE MCCHRISTIAN, COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
(Continued)

Liabilities (Continued)

Unpaid Obligations-

Prior Year:

2003 Unpaid Liabilities:

State	\$	205	
County		2,784	
School		24,575	
Health		654	
Extension		1,257	
Soil		90	
Ambulance		1,095	
Watershed		224	
Interest Due Sheriff's Fee Account		226	
Interest Due School		170	
Add-on Fees to Sheriff's Fee Account		1,428	
Advertising Fees Due Sheriff's Fee Account		490	33,198

2002 Unpaid Liabilities:

State		51	
County		136	
School		346	
Health		16	
Extension		99	
Ambulance		90	
Watershed		17	
Interest Due Sheriff's Fee Account		289	
Interest Due School		211	
Franchises Payable		1,641	2,896

Total Unpaid Obligations		\$	45,567
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Total Liabilities		\$	142,711
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Total Fund Deficit as of May 1, 2005		\$	(3,962)
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## COMMENTS AND RECOMMENDATIONS



CARLISLE COUNTY  
STEVE MCCHRISTIAN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 1, 2005

STATE LAWS AND REGULATIONS:

The Records For Franchise Taxes Were Not Complete In Accordance with KRS 134.160

KRS 134.160 requires the Sheriff maintain accurate records in accordance with the Uniform System of Accounts. The records for the franchise taxes were not complete. Reports were not made every month for the paid bills. In most cases, several months would elapse before a reporting of the collection was made. On several occasions, this procrastination caused bills to be left off of the reports causing a balance in the account of \$30,881 as of May 1, 2005.

We recommend that the franchise tax collected be reported on a monthly basis and all liabilities owed be paid on a monthly basis. To close the account, we recommend the Sheriff transfer \$30,881 to the Property Tax Account.

*Sheriff's Response:*

*No Response*

The Sheriff Should Distribute Interest Earned On The Tax Account To The School And Fee Account On A Monthly Basis in Accordance With KRS 134.140 (3) (b).

KRS 134.140 (3)(b) requires the Sheriff to distribute the interest earned on the tax account to the school district and fee account in proportion of taxes collected on a monthly basis. The Sheriff failed to distribute any interest earned throughout the year. We recommend that the Sheriff distribute interest earned on the tax account in accordance with KRS 134.140 (3)(b).

*Sheriff's Response:*

*No Response*

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On October 29, 2004, \$22,362 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*No Response*

CARLISLE COUNTY  
STEVE MCCHRISTIAN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of May 1, 2005  
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness: (1) The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and to the receipts ledger. Any differences should be reconciled. He should document this by initialing the bank deposit, daily check-out sheet, and receipts ledger. (2) The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax reports. (3) The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*No Response*

Prior Year:

- The Records for Franchise Taxes were not complete in accordance with KRS 134.160. This comment had not been corrected and is repeated in current year.
- The Sheriff did not publish the tax settlement within sixty days after the close of the calendar year in accordance with KRS 424.220(6). This comment has not been corrected; however, it will not be repeated in current year.
- The Sheriff should distribute interest earned on tax account to the school and fee account on a monthly basis in accordance with KRS 134.140(3)(b). This comment has not been corrected and is repeated in current year.
- The Sheriff should require depository institutions to pledge or provide additional collateral of \$141,843 to protect deposits. This comment has not been corrected and is repeated in current year.
- Lacks adequate segregation of duties. This comment has not been corrected and is repeated in current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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SANDRA D. DUGUID

The Honorable John Roberts, Carlisle County Judge/Executive  
Honorable Steve McChristian, Carlisle County Sheriff  
Members of the Carlisle County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Carlisle County Sheriff's Settlement - 2004 Taxes as of May 1, 2005, and have issued our report thereon dated October 25, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carlisle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

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MEMBERS:

American Institute of Certified Public Accountants

Kentucky Society of Certified Public Accountants

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Carlisle County Sheriff's Settlement - 2004 Taxes as of May 1, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Records For Franchise Taxes Were Not Complete In Accordance With KRS 134.160
- The Sheriff Should Distribute Interest Earned On The Tax Account To The School And Fee Account On A Monthly Basis In Accordance With KRS 134.140(3)(b)
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Kem, Duguid & Associates*

Kem, Duguid & Associates, PSC

Audit fieldwork completed -  
October 25, 2005

